

# Executive Summary

## Overview

Utah's economy improved significantly in 2004. The slowdown beginning with the 2001 recession has ended, and growth has accelerated. Continuing the trend from the 1990s, Utah outperformed the nation in 2004, with job growth of 2.5%, compared to just 1.0% nationally. Growth in 2004 is a welcome contrast to 2003, when Utah's economy was flat.

Between January 2001 and June 2004, employment fell 14.3% in Utah's technology sector, a loss of almost 9,500 jobs. This sector lost just a few hundred jobs during 2004 as the pace of high technology job losses slowed significantly compared to the three prior years. Still, while many sectors including high technology and manufacturing suffered from the onset of the recession and the 9-11 terrorist attack, the state has also been the recipient of increased federal defense spending targeted at the war on terror.

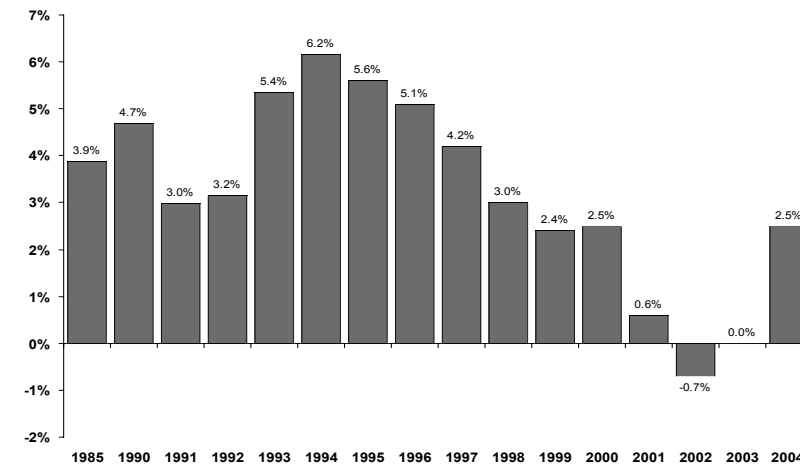
Strong growth in the construction and professional and business services sectors, and in defense spending, strengthened the Utah economy during 2004. At 5.6%, construction employment showed the largest gain. Professional and business services came in a strong second at 5.2%. Construction value set a record, reaching \$4.9 billion.

## Outlook

The outlook calls for continued growth during 2005. Employment growth of 2.4% will nearly match the 2004 rate of 2.5%. Population growth will also be at 2.4%, a slight increase over 2004's 2.3%, due to stronger net in-migration. Net in-migration is expected to be up since the Utah economy will outperform the national economy in 2004.

Construction job growth will remain strong at 4.8% with total value on track to meet or exceed the 2004 record. Residential value is expected to decrease slightly but nonresidential value should increase. Higher interest rates, expiring auto incentives, and sustained high energy prices may dampen economic growth during 2005.

Figure A. Strong Job Growth in Utah



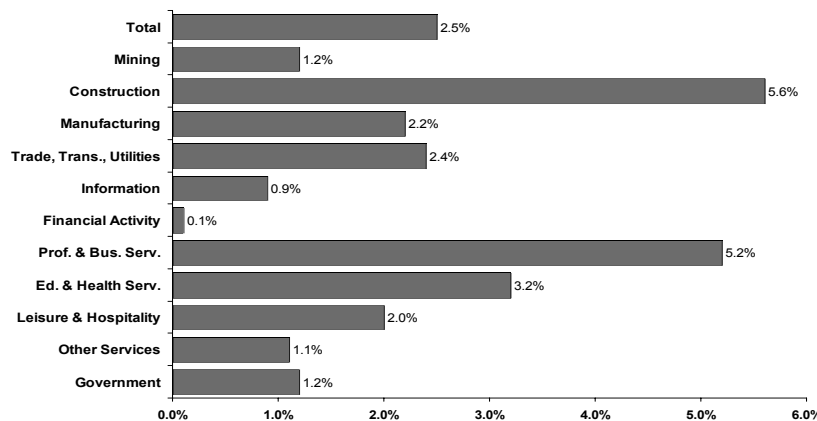
Source: Utah Department of Workforce Services

## International, National, and Regional Context

**Global Growth**  
During 2004, the world wide recovery accelerated, with global GDP growing 5.0%, the highest in nearly three decades. As 2004 closed, however, growth momentum slowed, notably in the U.S., Japan, and China, following the sharp rise in oil prices. Looking forward, the global expansion will continue, but at a slower pace, with global GDP growing about 4.0% during 2005. Since the late 1990s, the U.S. has driven world

growth by importing substantially more than it exports. During 2004, however, the U.S. trade deficit reached a record 5.4% of GDP, a situation that can not continue forever. The key challenge facing the global economy in the next few years is how to resolve the imbalance between the U.S and its largest trading partners in Asia and Europe.

Figure B. All Job Sectors Growing



Source: Utah Department of Workforce Services

## National Recovery

After two years of contraction, U.S. employment grew 1.0% during 2004, and is expected to grow 1.7% during 2005. Despite the growth during 2004, employment is still below the peak reached in March 2001, but should pass the peak during 2005. Oil prices are expected to remain above \$35 per barrel which means consumers will spend more for gasoline and less on other goods and services. The net effect is to dampen consumption,

investment, and production. Despite higher oil costs and continuing geopolitical tensions, GDP is expected to grow 3.2% in 2005, down from 4.4% in 2004.

**Mountain States Recovery.** The mountain region has recovered fairly well from the 2001 recession. Although 2003 was a difficult year for employment and income, 2004 improved significantly. In the 12 month period ending in October 2004, the region held four of the top five fastest growing states. Employment grew 2.6% across the region, more than twice the national rate of 1.2%. Nevada was the fastest growing state in the nation and the region, with Idaho and Utah in second and third, respectively, in both the nation and the region. However, the mountain region continues to be known for lower wages, with only Colorado above the national average.

### Population

Utah's population grew 2.3% during 2004, more than twice the national rate. With a growing economy, net migration was over 18,000. Despite strong migration, natural increase, or the difference between births and deaths, accounts for almost 70% of Utah's population growth. During 2004, for the first time ever, the number of births in Utah exceeded 50,000. Utah continues to lead the nation in total fertility, or the number of births each woman can expect during her lifetime, so births should continue at or above the current record level for the foreseeable future.

### Jobs and Wages

As 2004 closed, Utah's economy accelerated out of its worst slump since 1954. After reaching a peak in January 2001, employment fell for over two years, then began growing in mid-2003, and passed the 2001 peak in January 2004. By September of 2004, year over employment growth rates were above 3%. Employment growth is expected to temper somewhat as 2005 progresses, averaging 2.4% for the year. With employment growing at a good pace, the unemployment rate is expected to fall from 5.3% in 2004 to 4.7% in 2005.

Each of Utah's major employment sectors grew during 2004, with growth

rates ranging from 0.1% in financial activity to 5.6% in construction. The decline in manufacturing stopped during 2004 as the sector grew 2.2%. Two other sectors grew more than 3.0% during 2004: professional and business services grew 5.2%; and education and health services grew 3.2%.

Utah's average annual nonagricultural pay was \$31,415 during 2004, up 2.6% from 2003. For the second year in a row, wages failed to keep pace with inflation during 2004. From 1994 to 2000, wages increased significantly faster than inflation. In 2001 and 2002, wages essentially matched inflation. With the economy growing well, wages should outpace inflation during 2005, so the standard of living in Utah will improve.

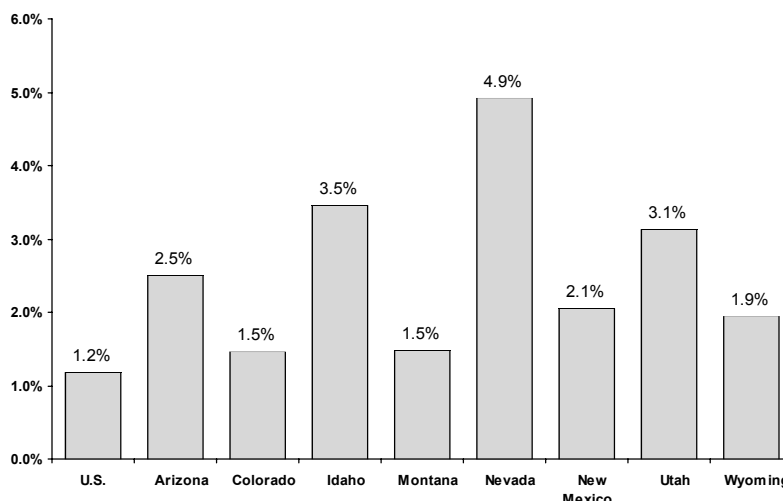
### Economic Performance by Sector

Economic performance was quite good across most sectors during 2004. Strong demand and prices boosted agriculture. Continuing low interest rates combined with growing employment and population powered construction to an all-time high. The ongoing geopolitical situation and the primary role Hill Air Force Base plays in air logistics kept defense growing. Minerals were up as well with global economic growth accelerating. Most other sectors had varying levels of improvement. Energy production was down.

### Agriculture, Construction, Defense, Minerals, Tourism, and Exports Up

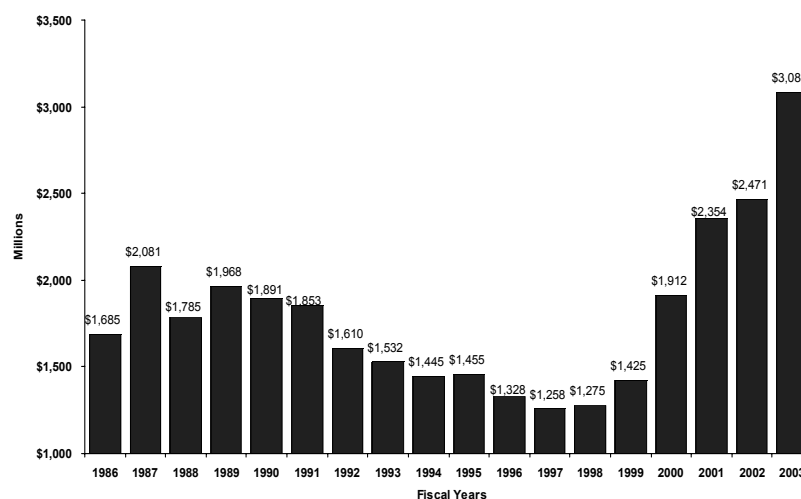
**Agriculture.** Utah's agricultural production and income rose sharply in 2003 and 2004. As the drought ends, the value of agricultural production in Utah during 2005 should hit record levels, with all sectors improving. Net farm income grew by nearly 45%, from \$254 million in 2002 to \$368 million in 2003, setting a record in 2004, and should continue growing in 2005. Relatively high prices for livestock and crops are generating

**Figure C. Mountain States Employment October 2004 (Year Over)**



Source: U.S. Bureau of Labor Statistics

**Figure D. Defense Spending in Utah at a Record High**



Sources: U.S. Department of Commerce, Bureau of the Census; Department of Defense

welcome income growth for Utah's ranchers and farmers.

**Construction.** Low interest rates and a growing economy powered construction value to an all-time high in 2004 of \$4.9 billion, up 6.4% from the 2003 record of \$4.6 billion. Residential construction led the way with a record \$3.4 billion in new construction activity. The number of new dwelling units receiving building permits totaled 23,500, which includes new homes, apartments, condominiums, manufactured homes and cabins. Low mortgage rates throughout 2004 drove demand for new single-family homes to a near record high of 17,000 units. The only other year to surpass 17,000 single-family units was 1977 when 17,424 new homes received building permits. For the second year, condominium construction was very strong capturing 12% of the residential market. Nonresidential construction held steady at \$1.0 billion, about the same as in 2003.

**Defense.** Utah's defense industry continued to expand in 2004, due to heightened geopolitical conflict. Hill Air Force Base (HAFB), while threatened by the current round of base closures, has many competitive advantages that bode well for the future. HAFB has recently started several programs that will help the long-term future of one of Utah's largest employers. Although the defense industry experienced reductions during most of the 1990s, this trend reversed in the latter part of the decade. Defense spending in Utah in 2003 totaled \$3.1 billion, rising 24.7% from the previous year. Increased defense activity is expected to continue in 2005, as a result of military involvement overseas. On the downside, if HAFB is closed, the impact will be a significant drag on Utah's economy.

**Minerals.** The value of mineral production in Utah grew 27% during 2004 to \$2.2 billion, from \$1.8 billion in 2003. The record value of production results from substantial increases in both metal prices, and increases in the production and prices of most industrial mineral commodities. However, with the exception of magnesium, metal production fell during 2004.

**Tourism.** Utah's travel and tourism sector improved during 2004. Each of the five major tourism sectors (transportation, eating and drinking, hotels and lodging, amusement and recreation, and car rentals) experienced gains. The Utah ski industry enjoyed its best year on record in terms of skier visits. Visitation increased at the national parks, and hotel occupancies were also up. All of these increases resulted in higher amounts of traveler spending and increased travel-related employment in 2004 compared to 2003. However, Utah's share of U.S.

traveler spending is declining and competition for visitors is fierce. The outlook for the industry in 2005 is cautiously optimistic with industry experts forecasting continued, but perhaps slower growth in 2005. Travel among business and leisure travelers, both international and domestic, should increase, however, there are still concerns about the economy, employment, the war in Iraq, and terrorism.

**Exports.** Utah's exports increased 12.8% during 2004, from \$4.1 billion in 2003 to \$4.6 billion. Utah's merchandise exports have been at or above \$3.0 billion since 1997 and above \$4.0 billion since 2002. Shipments of gold accounted for almost 31% of the total during 2004, continuing this trend in the global economy. Utah's exports to China exceeded \$100 million for the second year in a row, ranking China the number nine market. As the world economic recovery strengthens during 2005, Utah's exports should continue to grow.

**High Technology Mixed.** While Utah's technology sector continued to lose jobs during 2004, extending a decline that began in 2001, a turn around appears to be at hand. From January 2001 through June 2004,

Utah's technology sector lost 9,500 jobs, a drop of 14.3%. However, these losses began to abate in 2004. In 2003, 14 industries posted job losses, seven of which were more than 100 workers. In 2004, ten industries posted job losses, two of these (computer and peripheral equipment and motion picture and video production) had losses of more than 100 workers. Five industries reported job growth of more than 100 workers.

**Energy Down.** During 2004, energy production in Utah was generally on

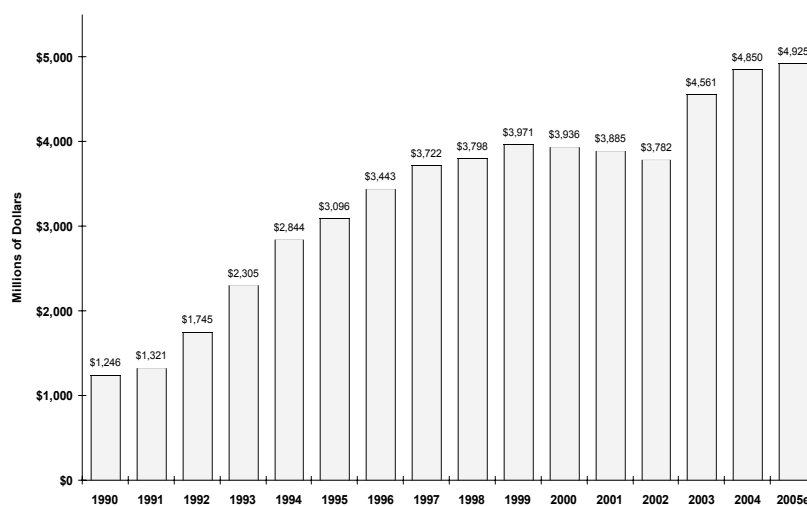
the decline, while consumption and prices were on the rise. Despite recent declines, production of coal and natural gas has satisfied increasing demand, unlike crude oil production, which is only a third of what it was 20 years ago. Increasing energy prices in Utah are related to national events and have been driven up by high demand, low stocks and foreign conflicts.

#### Significant Issues: Kennecott Land, Forest Service Portfolio, Water

**Kennecott Land.** Kennecott Land was established in 2001 to focus on protecting and developing Kennecott Utah Copper's non-mining land and water assets. Kennecott Land owns 93,000 acres of land in the Oquirrh Mountains and foothills, the largest remaining land holding in the Salt Lake Valley. With significant population growth expected in the Salt Lake Valley over the next 100 years, much of the housing, jobs, transit, roads and open space will be built or protected on Kennecott land.

**Forest Service Portfolio.** Utah contains six National Forests. Four of

**Figure E. Construction Value Powered to Record High by Low Interest Rates**



Source: Bureau of Economic and Business Research and the Governor's Office of Planning and Budget

those forests are currently updating their forest plans. Forest plans are revised every 10 to 15 years for the Forest Service to incorporate changes in the natural environment, new scientific understandings, social trends, and new laws and policies. In an effort to provide a fresh approach to forest resource planning, the Governor's Office of Planning and Budget (GOPB), has been exploring new methods of encouraging collaboration between Forest managers and the local communities that are impacted by Forest decisions. GOPB is currently developing Social and Economic Assessments for the Ashley, Dixie, Fishlake, and Manti-La Sal National Forests.

**Water.** The current drought began in 1999 and has impacted every water basin in Utah. Although it is not as severe as the drought in 1990, population growth raises concerns about demand outstripping supply even when drought conditions don't exist. Water use fluctuates and is dependent upon water basin, the type of water used, the type of water user, and the drought cycle. Lot size of residential property also has an influence on the amount of water used for outdoor purposes. The concern that tax funded water systems are charging customers less than the full cost of the water and using tax revenue to make up the difference seems to be unfounded. Also, Utah's use of groundwater may be cause for concern as it is not as easily replenished as surface water.

#### **Looking Ahead**

As the expansion progresses, Utah's economy will continue on the growth path in 2005 that began in 2004. With 2004 showing reasonably strong growth after two consecutive years of job losses, employment should grow 2.4% during 2005. The unemployment rate is expected to fall from the current 5.3% to 4.7%, a level that signals a strong economy. Resuming a trend interrupted in 2001, wages will increase faster than inflation during 2005.